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PROBLEMATIC LUCIDITY
Stephen Krasner's "State Power and the Structure of International Trade"

By ROBERT O. KEOHANE*

INTERNATIONAL political economy is a subject without clear boundaries. It is as old as trade and theft between societies—hence older than written history. It is spatially extensive: today, no spot on the globe is untouched by distant markets or their manipulation by powerful states, and if intergalactic trade were ever to become a reality, international political economists would surely study it. The actual agents number in the billions: they are firms and individuals, from parochial peasants to jet-setting tycoons and office-bound state bureaucrats. Unlike stylized versions of "international" (that is, interstate) politics, political economy cannot be encompassed solely by the interactions of states.

This absence of boundaries implies an abundance of confusion. Unable to delimit our subject conveniently, everything may appear relevant to us, from factor endowments to electoral systems, exploitation of labor to exploitation of the natural environment. Realizing that seeking to understand everything will lead to knowledge of nothing, we desperately seek threads to guide us through the labyrinth, to show us what is important and how different forces and processes are related. Clarity and simplification become essential.

We know, however, that predictability is elusive. Too many factors interact in complex ways to produce the results we see. Random shocks disrupt the system. Patterns that first appear for nonsystematic reasons become locked in, in path-dependent ways. However boldly we press our favorite explanations or approaches, we recognize that they are all partial, at best—no more than approximations of how the international political economy works. The clearer the argument, the more obviously problematic it may be.

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As students of international political economy, we are attracted to lucidity. We want a coherent conception of our subject, even though we recognize that any such conception will be partial and flawed. Particularly lucid arguments can therefore stimulate great scholarly interest and productive responses, even if they are conceptually and empirically inadequate. Although we are never likely to be able to predict or thoroughly explain specific strategic interactions among states, firms, and nongovernmental organizations, we can aspire to conditional generalizations that narrow the range of our uncertainty by accounting for general patterns of behavior.

Stephen D. Krasner's 1976 article in *World Politics*, "State Power and the Structure of International Trade," is notable for its distinctive combination of lucid and problematic propositions.[1] Krasner forcefully argues that openness in the world economy is most likely to occur "during periods when a hegemonic state is in its ascendancy" (p. 323). As long as the state's technological lead is increasing, its leadership will perceive economic advantages to openness, since openness will expand markets for the products of its technologically sophisticated industries. The hegemon will also gain politically, since the "opportunity costs of closure" will be low, relative to those facing smaller and poorer states. Conversely, when several large, unequally developed states coexist, Krasner predicts that the more backward states will find openness economically and politically costly and will therefore resist it. Greater trade closure will therefore result.

"State Power and the Structure of International Trade" crystallized issues and set the terms for more than a decade of work in the field of international political economy (IPE). Although several of Krasner's themes can be found in the earlier writings of others, no one juxtaposed economics and politics more succinctly or effectively than he. And no one combined lucidity with problematic argument so well. By raising key issues in a pungently provocative way and by manifestly resolving none of them, Krasner defined the agenda for years of scholarship.

I. Major Themes and Causal Mechanisms

"State Power and the Structure of International Trade" operates simultaneously on three levels. Its first sentences announce a ***program*** for the revival of the state in studies of international relations: "In recent years, students of international relations have multinationalized, transnation-

[1] Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976).

alized, bureaucratized and transgovernmentalized the state until it has virtually ceased to exist as an analytic construct. . . . This perspective is at best profoundly misleading" (p. 317).

Krasner's rhetoric is dazzling: the core subject matter of political science is threatened and must be recovered. "State Power" sounds the rallying cry for the defenders of the state. People who look to the state for redress of market unfairness, scholars whose human capital is invested in understanding how states work, and Hobbesian skeptics suspicious of visions of efficiency and harmony can all rally around the statist standard. Teaching and writing on this theme in the mid-1970s, after the defeat of the United States in Vietnam, Krasner helped to launch a counterwave of renewed interest in the state against the trends emphasizing economic interdependence, transnational relations, "ungovernability," and the state's alleged economic irrelevance. Leading economists had been more impressed with the advantages of multinational firms over states. Not long before Krasner wrote, Charles Kindleberger had proclaimed that "the nation-state is just about through as an economic unit."[2] Even political scientists sympathetic to the transnationalist research agenda recoiled from such rhetoric. It was Krasner's counterrhetoric that energized a statist reaction—and it mattered little that his article nowhere defines "the state"; contests over definitions also became part of the subsequent scholarly debate.

Some of the appeal of "State Power" derives from its clear specification of a *puzzle*. Puzzles are central to social science, and Krasner's puzzle is an important one. Why, he asks, has the world economy vacillated between openness and closure? To clarify this issue, Krasner carefully defines the continuum between openness and closure. While acknowledging the significance of movements of capital, labor, and technology, he focuses on trade. He argues that openness or closure in the structure of international trade can be operationalized by examining tariff levels, trade as a proportion of national product, and the regionalization or globalization of trade. Krasner does not merely present an important puzzle; he provides a way to measure the dependent variable that he has identified. Thus he lays out the basis for a focused research program.

"State Power" also advances a strong *proposition*, as stated above, that hegemonic ascendancy tends to create openness. Indeed, Krasner proposed a set of explanatory variables—position in the world political economy, defined in terms of size, level of development, and changes in

[2] Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven: Yale University Press, 1969), 207.

relative economic predominance—to account for the dependent variable of openness. Hence from the outset he emphasized theoretically meaningful questions. For political scientists, Krasner's choice of a master explanatory variable was especially appealing, since in his formulation, power ("our" subject) determines economic patterns, rather than vice versa.

However bold the hegemonic-power formulation, however, there is a serious problem: within twenty-five pages Krasner himself seems to falsify his own proposition. Indeed, he finds that hegemony correctly predicts openness in only three of the six periods that he considers (in 1820–79, 1880–1900, and 1945–60, but not in 1900–1913, 1919–39, or 1960–75). He admits that "the whole pattern is out of phase" and in the last three pages of his article proposes an amendment, arguing that "some catalytic external event seems necessary to move states to dramatic policy initiatives in line with state interests" (p. 341). Such events, however, seem to be known only post hoc. World War I was a dramatic event but did not prompt the United States to invest in leadership of the world economy, whereas the Great Depression and World War II combined to do so. So far, neither the gradual decline in its dominant postwar position in the world political economy nor the end of the cold war has propelled the United States back to protectionism. In the end, therefore, what Krasner offers is less a rigorous explanation than a brilliant interpretive guide to the past, with post hoc qualifications.

How is it that an article whose central argument seemed to implode in under twenty-five pages has been so influential in the field?

My thesis is that Krasner's article was influential partly *because* his argument, while lucid and insightful, contained gaps in its causal arguments, as well as empirical anomalies. The anomalies—Britain's support of openness after 1900, the failure of the United States to exercise leadership after 1919, and arguably (within Krasner's framework) U.S. support of openness after 1960—practically leap off the page. Once Krasner had identified openness as a dependent variable, the anomalies demanded explanation. But perhaps more important, Krasner sketched an argument about why hegemony *should* engender openness. Aspects of this argument were both problematic and immensely fruitful.

II. Krasner's Economics

Krasner begins his causal argument by referring to standard economic doctrines of static efficiency, which hold that openness raises aggregate national income. Naïvely, one might therefore expect all states to pursue policies of free trade, but of course they do no such thing. One could seek to account for protectionist policies by assuming that the relevant policymakers were dumb or ignorant; but as Krasner observes, "Stupidity is not a very interesting analytic category." Instead, he proposes to explain variation in policies by assuming "that states seek a broad range of goals," of which he emphasizes four: aggregate national income, economic growth, political power, and social stability (p. 319).

As Krasner sees it, a state selects policies on the basis of its position in the world political economy, in light of these four goals. In particular, states' policy preferences reflect their size and level of development, as compared with those of other states. To understand variation in policies, therefore, the investigator must assess the *causal mechanisms* that link size and level of development with states' preferences for openness or closure. While Krasner's portrayal of these mechanisms is sketchy and controversial, his stress on causal mechanisms helped to focus future scholarship.

Krasner accepts the standard economic argument that all states benefit, in static economic terms, from openness. Small states benefit most, both in static and dynamic terms, from international trade. Therefore, a system of small, highly developed states will tend to be an open one. Under these conditions, economic interests lead to a liberal outcome. As we will see, this is an important conclusion, although it is not the point for which Krasner's article is famous.

For other states, the relationship between international economic structure and economic growth is "elusive." For large states, especially those without a strong technological edge, Krasner argues that the evidence is not yet in. On economic grounds alone, he reasons, large, highly developed states should favor openness at least as long as they can maintain their technological edge; large, less developed states or wealthy states that are losing their technological advantages are expected to be more inclined toward closure.

This conclusion depends on two key, and contestable, propositions. The first of these is that hegemonic powers should increasingly favor closure after they begin to lose their technological edge. I will call this Krasner's "*decline-closure* proposition." The second contestable economic proposition can be dubbed the "*backwardness-closure* linkage," according to which large, economically backward states will pursue policies of closure, for two reasons. First, they gain less from openness (being large and with factors of production that are difficult to move from one use to another), and second, openness makes them politically vulnerable to pressure from more powerful states.

The decline-closure proposition is crucial to Krasner's distinction between hegemony in a static sense (in which one state is larger and more advanced than its trading partners) and "hegemonic ascendancy." Ascendancy requires not only that a single state be larger and relatively more advanced than its trading partners but also that its relative size and technological lead be increasing (p. 322). Thus, according to Krasner, if the most powerful and technologically advanced state finds its lead diminishing, as Great Britain did in the thirty years before World War I, openness will work to its disadvantage by diverting resources from the domestic economy and by "providing potential competitors with the knowledge needed to develop their own industries" (p. 320). Accordingly, a hegemon's interest should switch from openness to closure after its lead over rivals has peaked.

This argument is not fully articulated. Perhaps it rests on the assumption that closure of one's borders to economic exchange, especially trade, would enable a leading country to preserve its advantage in knowledge. (That is, a state that eschews export opportunities and the benefits from corresponding imports will be better able to keep its trade secrets.) However, the assumption that closure to trade would prevent the diffusion of knowledge and hence preserve existing technological advantage is a questionable one. It seems more likely that knowledge would spread despite attempts at closure and that leading countries choosing closure would become less innovative and consequently lose their advantages more quickly than countries that maintained openness to the world economy.

Even more compelling are the political objections to the view that declining hegemons will develop preferences for closure. Governments that are accountable to domestic economic interests are unlikely to seek to thwart the efforts of their leading manufacturing industries to promote exports. The history of export controls designed to promote national defense suggests that in democracies it is difficult to impose such constraints even in situations defined as national emergencies. Indeed, pressures for closure are more likely to focus on imports than on exports and to emanate from import-competing rather than export-oriented sectors and social groups. Krasner's hypothetical state seeks the public good of national advantage, but he does not explore the conditions under which such a state's internal institutions would enable it to overcome fragmented interests and problems of collective action.

Yet another line of support for the decline-closure argument could be more substantial, although it was not available to Krasner when he wrote: this is the strategic trade argument.[3] When industries are characterized not only by economies of scale but also by learning effects, cumulative output affects costs. That is, a firm's production costs may be a function in part of how much it has already produced. Suppose that the United States controls a huge market, Thailand has a tiny market, and that other markets are relatively closed to Thai goods. If the United States closes its markets to Thai goods, Thai production costs will remain high, since its firms will be unable to take advantage of either economies of scale or learning resulting from large-scale production. If the U.S. opens its markets and Thai firms have underlying sources of competitive advantage, their costs will fall. U.S.-based firms and their workers may put pressure on the United States government to close U.S. markets to products that compete with their own; if the advantages of U.S. firms over foreign competitors are declining in general, such pressures may be expected to be more severe. Since the United States market is so much more important to Thailand than the Thai market is to the United States, the United States may be able to extract compensation from Thailand for keeping them open. Krasner did not articulate such a logic, but he may have had something of this sort implicitly in mind. At any rate, the invention of strategic trade theory a few years after the appearance of "State Power" provided potential theoretical underpinnings for one of his key arguments.[4]

Krasner's other economic proposition links economic backwardness with policies of closure. This backwardness-closure linkage may have seemed fairly obvious in 1976, when dependency theory was at its apex and China was pursuing policies of autarchy, but it no longer seems sound. China is an economic dynamo, however ecologically destructive its rapid growth may be. Its growth depends on its relationships with the world economy and in particular its huge trade surplus with the United States, whose open market serves as an engine of Chinese growth. China devised a strategy that has enabled its elites to maintain

[3] I am indebted to Ronald Rogowski for pointing out to me that strategic trade theory could support Krasner's closure–relative advantage proposition. For an early work on strategic trade policy, see Paul R. Krugman, ed., *Strategic Trade Policy and the New International Economics* (Cambridge: MIT Press, 1986). David Lake also discusses this issue, in "Leadership, Hegemony and the International Economy: Naked Emperor or Tattered Monarch with Potential? *International Studies Quarterly* 37 (December 1993).

[4] Skepticism and controversy abound over other questions: whether democratic governments actually act on the basis of strategic trade considerations (rather than principally reacting to societal pressures) and whether such governments would be capable of intelligently crafting policies along strategic trade lines.

their grip on power—avoiding the societal disruption that would be likely to result from genuine openness to the world economy but at the same time garnering substantial benefits from its global connections.

The Chinese example illustrates the limitations of a dichotomy between "openness" and "closure," understood as unilateral strategies. For China, *selective* openness and manipulation of the openness of others may be a superior strategy to a unilateral policy of either openness or closure. For leading powers such as the United States, conditional acceptance into the world trading regime of countries such as China—demanding their adherence to established rules as a price of admission—may be preferable to either unconditional inclusion or attempts at exclusion.[5]

III. Krasner's Political Arguments

Krasner's political and social propositions, rather than his economic arguments, were the principal source of his article's influence. Politically, Krasner argues, the *opportunity costs of closure* are crucial. Since these costs are relatively low for large, developed states (which have low ratios of foreign trade to production), these states can credibly threaten, in an open economy, to block international trade or investment to "secure economic or noneconomic objectives" (p. 320). Large states not only benefit economically from openness; they also gain politically. "A state that is relatively large and more developed will find its political power enhanced by an open system because its opportunity costs of closure are less" (p. 320). Social stability is also important. *Societal adjustment* to change will be more difficult in small states than in large states, because of their greater exposure to the world economy, and "social instability is thereby increased" (p. 319). Hence, although small states gain most in purely economic terms from openness, in Krasner's view the political and social incentives for openness are greater for large, relatively more developed states.

Krasner's propositions about the opportunity costs of closure and social instability were so intriguing yet so clearly incomplete that they stimulated efforts to identify and specify the operation of causal mechanisms, both those linking hegemony with openness and those that could tend to weaken or confuse such a linkage. Both sets of causal mechanisms provide windows on to subsequent work in the field. Since these

[5] I am indebted to Stephen Krasner for his observations on an earlier version of this essay, which stimulated this point.

causal mechanisms played such a central role in Krasner's analysis and in its impact on the field, my review of the significance of his work focuses on these causal mechanisms and their treatment in previous and subsequent literature. This section focuses on the opportunity costs of closure (a concept that at the time Krasner wrote was becoming a core proposition of international political economy). The next section discusses the literature related to Krasner's point about societal adjustment.

Krasner's title, "State Power and the Structure of International Trade," was meant to evoke Albert Hirschman's book *National Power and the Structure of Foreign Trade.* Hirschman defined the "influence effect of foreign trade" as resulting from dependence of one nation on another and argued that "the classical concept, gain from trade, and the power concept, dependence on trade, are seen merely as two aspects of the same phenomenon."[6] In 1970 Kenneth N. Waltz asserted that "in international relations interdependence is always a marginal affair," a "myth." Waltz provided no empirical evidence for his claim, which rapidly seemed outdated as trade and investment soared as proportions of national product. Waltz's more important contribution was to draw a distinction between two types of interdependence:

> States are mutually dependent if they rely on each other for goods and services that cannot easily be produced at home. That kind of interdependence is difficult (costly) to break. The other kind of interdependence—sensitivity of response to variations in factor prices—may be economically more interesting; it is also politically less important.[7]

Drawing on Hirschman and Waltz, Krasner focused on "the relative cost of closure" and argued that "the higher the relative cost of closure, the weaker the political position of the state" (p. 320).[8]

The research program revolving around the opportunity costs of closure was not particularly novel, as David Baldwin pointed out in these pages in 1979.[9] The issues that arise are standard bargaining problems, well known in political science. Yet without making this connection between "state power and the structure of international trade," we

[6] Hirschman, *National Power and the Structure of Foreign Trade* (1945; reprint, Berkeley: University of California Press, 1980), 18.

[7] Waltz, "The Myth of National Interdependence," in Charles P. Kindleberger, ed., *The International Corporation* (Cambridge: MIT Press, 1970), 210.

[8] Joseph S. Nye and I expressed the same thought a year later in *Power and Interdependence*: "A useful beginning in the political analysis of international interdependence can be made by thinking of asymmetrical dependencies as sources of power among actors." Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977), 18.

[9] Baldwin, "Power Analysis and World Politics: New Trends versus Old Tendencies," *World Politics* 31 (January 1979).

would not have a *political economy* of international relations. Krasner's article is important for having helped to clarify and crystallize this connection.

More important than Krasner's discussion of the opportunity costs of closure for individual states is his attempt explicitly to take into account the concern of states for security and to link arguments about security with his opportunity costs argument. Krasner's discussion of economics and security builds on Robert Gilpin's contention that the expansion of international economic activity was dependent in the nineteenth century on the *Pax Britannica* and after 1945 on the *Pax Americana.* In Gilpin's view, echoed by Krasner, "the pattern of international economic relations is dependent upon the structure of the international political system."[10] States seek security as well as wealth. Because power is essential for security, and wealth is a means to power, powerful states will seek to structure international economic relations in a way that generates wealth and power for themselves. Krasner sought to specify and generalize Gilpin's argument, proceeding in two steps: (1) states in hegemonic ascendancy will favor openness for political as well as economic reasons; and (2) since such states are hegemonic, they will by definition have the capacity to liberalize the world trading system as a whole. "The potentially dominant state has symbolic, economic, and military capabilities that can be used to entice or compel others to accept an open trading structure" (p. 322). Hence, the world economy will be more open when dominated by an ascendant hegemon than when a few large states coexist or when the hegemon is declining. In general, the world economy will be most open at two extremes: with many small states, each with a strong interest in economic openness, or with one ascendant hegemon. By generalizing Gilpin's argument and specifying a clearly defined dependent variable, Krasner put it into a form conducive to social scientific analysis.

Krasner's argument about hegemony, while similar to Gilpin's, differs sharply from that of Charles P. Kindleberger, who concluded from his study of the Great Depression that one state must provide the public good of stability: "For the world economy to be stabilized there has to be a stabilizer—one stabilizer." Kindleberger's argument combined functional logic with the theory of public goods. Krasner was concerned with openness, not systemic stability in a crisis, and he relied on

[10] Gilpin, "The Politics of Transnational Economic Relations," in Robert O. Keohane and Joseph S. Nye, eds., *Transnational Relations and World Politics* (Cambridge: Harvard University Press, 1972), 54–55. *Transnational Relations and World Politics* first appeared in a special issue of *International Organization* 25 (Summer 1971).

neither functional logic nor public goods theory.[11] In a recent article, David Lake even gives the two formulations different names, referring to Kindleberger's version as "leadership theory" and Krasner's as a neorealist version of "hegemony theory."[12]

Krasner articulated most clearly what I later dubbed the "theory of hegemonic stability"—the theory that strong international economic regimes depend on hegemonic power. My label did not really do justice to Krasner's argument, since his dependent variable was openness rather than the strength or stability of international regimes (in which I was more interested), but the label stuck even after its source was largely forgotten.[13] The so-called theory of hegemonic stability generated lively scholarly controversy, focusing on three major issues: (1) the logical basis of the arguments made by Gilpin, Kindleberger, and Krasner; (2) whether without a hegemon a small number of countries could maintain openness through strategic interaction, and if so, under what conditions; and (3) what the empirical record showed about the relationship between structure and trade openness.

John Conybeare put forward a logical objection to the hegemonic stability argument by pointing out that the optimal policy for a hegemon should be "monopolistic predation," as in the form of an optimal tariff. However, Conybeare conceded that hegemons "have in some cases pushed for open systems." He speculated that "this (possibly) second best strategy may be nothing more than a reflection of the hegemon's perception of the credible deterrence capacities of small powers."[14] Five years later, Joanne Gowa used Conybeare's own analogy to refute his argument. Like monopolists following practices of "limit pricing," hegemonic states have incentives to limit their short-term exploitation of others in order to discourage challengers. Hence Gowa provided an additional sophisticated theoretical rationale for the association of hegemony with openness that Krasner expected to find and that is observed in the second half of the nineteenth and twentieth cen-

[11] See Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973 and subsequent editions). The quotation is on page 304 of the revised and expanded edition of 1986. Krasner accepts this distinction between his work and Kindleberger's. See Michael C. Webb and Stephen D. Krasner, "Hegemonic Stability Theory: An Empirical Assessment," *Review of International Studies* 15 (April 1989), 184.

[12] Lake (fn. 3).

[13] Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967–1977," in Ole Holsti et al., eds., *Change in the International System* (Boulder, Colo.: Westview Press, 1980), 136. Vinod Aggarwal most forcefully pointed out that international regimes could be illiberal. See Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985).

[14] Conybeare, "Public Goods, Prisoners' Dilemmas and the International Political Economy," *International Studies Quarterly* 28 (March 1984), 12.

turies under British and American leadership, respectively.[15] As Gowa argued, the implication of Conybeare's optimal tariff argument was not so much that hegemony should produce closure (which would only have compounded empirical anomalies) but that strategic interactions must be explicitly modeled to account for observed policies.

Such strategic arguments were made informally in 1984 by David Lake and myself. Lake used Krasner's structural arguments to argue *against* the thesis that hegemony would be necessary for liberal trade. For Lake, countries with high relative productivity and medium relative size should be "supporters" of liberal trade. He took the view that the trend in the international economic structure is toward "multilateral supportership."[16] In a sense, Lake used Krasner's structural approach to refute Kindleberger's argument about the necessity of a hegemon for a liberal economy. In *After Hegemony*, I argued that under favorable historical and institutional conditions a small number of countries, each concerned about linkages among issues and about their reputations, could maintain cooperation among themselves on the basis of shared interests.[17] Neither Lake nor I challenged the proposition that hegemony and liberal trade were empirically associated, although we both questioned the *necessity* of hegemony for openness. Our arguments were complemented and reinforced a year later by Duncan Snidal, who used game theory to make the case more rigorously that small groups can have incentives to cooperate and that under some conditions, "hegemonic decline strengthens the possibility of collective action by forcing states to cooperate if they wish to achieve reasonable outcomes."[18]

The increasing emphasis on strategic interaction in this literature did more damage to Kindleberger's leadership version of hegemonic stability theory, with its emphasis on the need for the leader to provide public goods, than to Krasner's structural theory. Indeed, this strategic orientation was actually consistent with Krasner's way of thinking about world politics, although in 1976 he did not explore strategic issues explicitly.[19] By coupling this strategic orientation with the tradi-

[15] Gowa, "Rational Hegemons, Excludable Goods, and Small Groups: An Epitaph for Hegemonic Stability Theory?" *World Politics* 41 (April 1989), esp. 312.

[16] Lake, "Beneath the Commerce of Nations: A Theory of International Economic Structures," *International Studies Quarterly* 28 (June 1984).

[17] Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

[18] Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985), 611.

[19] In discussing neoclassical trade theory, Krasner mentions a strategic-interaction argument of Harry Johnson: "that the imposition of successive optimal tariffs could lead both trading partners to a situation in which they were worse off than under competitive conditions" (p. 318). Later work by

tional realist emphasis on security issues, Gowa has argued that since trade produces security externalities, states will trade disproportionately with their allies.[20] In this view, cooperation among states is usually severely inhibited by competition for relative gains. But allies will not compete as strenuously as will potential adversaries to improve their *relative* positions vis-à-vis one another. Krasner himself has employed this line of argument to speculate about the persistence of cooperation in the 1980s, despite the absence of hegemonic ascendance. The major trading states were allied with one another, hence "need not be so concerned with relative gains from international economic co-operation with their alliance partners."[21] "Saving" the theory in this way is, however, a double-edged sword: the longer economic openness continues after the end of the cold war, the more dubious the interpretation will appear, as compared with the liberal-institutionalist view that emphasizes the capacity of a small number of states, linked by institutions, to cooperate for mutual gain.

Empirical arguments about hegemonic stability theory began to rage early in the 1980s. Timothy McKeown argued that the predictive accuracy of hegemonic stability theory is poor for nineteenth-century tariff levels, and John Conybeare made a similar claim for the 1902–71 period. Whereas McKeown suggested that tariff levels might be better explained by business cycles, Conybeare saw them as increasingly related to levels of development.[22] Later, McKeown performed systematic tests of the theory with data for over a century (1880–1987) and found little support for hegemonic stability theory.[23] Krasner himself, in an article with Michael Webb, pointed out that between 1960 and 1987 the world economy became more open despite the demise of American hegemony, dated by Gilpin, Kindleberger, and Krasner at some point between 1960 and the mid-1970s. Krasner and Webb observed that although "initial proponents of the theory pointed out that there would be lags between changes in the distribution of power and

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Krasner has explicitly used a strategic formulation. See especially "Global Communications and National Power: Life on the Pareto Frontier," *World Politics* 43 (April 1991). In that article he (unfairly, in my view) claims that "market failure analyses, which have dominated the literature on international regimes, pay little attention to power" (p. 342).

[20] Joanne Gowa, "Bipolarity, Multipolarity, and Free Trade," *American Political Science Review* 63 (December 1989); idem, *Allies, Adversaries, and International Trade* (Princeton: Princeton University Press, 1994).

[21] Webb and Krasner (fn. 11), 196.

[22] McKeown, "Hegemonic Stability Theory and Nineteenth Century Tariff Levels in Europe," *International Organization* 37 (Winter 1983); Conybeare, "Tariff Protection in Developed and Developing Countries: A Cross-Sectional and Longitudinal Analysis," *International Organization* 37 (Summer 1983),

[23] McKeown, "A Liberal Trade Order? The Long-Run Pattern of Imports to the Advanced Capitalist States," *International Studies Quarterly* 35 (June 1991).

changes in international transactions, . . . no systematic analysis of lags has yet been offered."[24]

Recent empirical work, however, may have come to the rescue of Krasner's argument, albeit with significant qualifications. Edward Mansfield has distinguished between hegemony (the relative inequality between the two largest powers) and the concentration of power in the system, measuring the "aggregate inequality of capabilities among all powers in the system."[25] He finds that whether hegemony is associated with openness depends on the measure of hegemony one uses (in particular, whether British hegemony is seen as ending in 1873, in which case hegemony is associated with openness, or in 1914, in which case it is not). Most important, Mansfield demonstrates that a U-shaped relationship exists between concentration and trade: trade is greater at low and high concentrations of capabilities than at middling levels. He points out that his findings—coming eighteen years after Krasner's work—confirm the latter's position "that the system is likely to be open when relative inequality is both highest and lowest."[26] After Krasner's most famous proposition appeared to have been empirically refuted, Mansfield provided evidence indicating that concentration of power, if not hegemony, is associated with trade openness. He also provided evidence to show that its much-neglected partner proposition—that a system of many small states is likely to be open—is also correct. This story suggests, as does much of the philosophy of science, that a plausible theory should not be abandoned too quickly in the face of facts that seem to disconfirm it, at least not until investigators have reflected on whether careful analytical distinctions and more systematic evidence might support a modified version of it after all.

The research program stimulated by the theory of hegemonic stability is both conceptually and empirically rich. Since Krasner's brilliant speculations were published, we have learned a great deal about the effects of hegemony and concentration on both openness and the stability of international regimes. Fortunately, the editors of *World Politics* in 1976 were undaunted by objections to Krasner's evidence and published his article.[27] Our field needs to be open to such original, if tenuous, flights of scholarly imagination!

[24] Webb and Krasner (fn. 11), 195. On the dating of the demise of hegemony, see pages 185–86.

[25] Mansfield, *Power, Trade and War* (Princeton: Princeton University Press, 1994), 179, 73.

[26] Ibid., 181. I am especially indebted to Professor Marc Busch of Harvard for pointing out the correspondence between Mansfield's findings and Krasner's theory.

[27] I claim no prescience in this respect. I recollect that my first reaction to Krasner's paper was more critical of the unsatisfactory nature of his evidence than appreciative of the lucidity with which he defined his variables and stated his key proposition. Since recollections are usually biased in favor of the reputation of the teller of the tale, this one is probably, unfortunately, correct.

IV. Societal Costs of Adjustment and Comparative Political Economy

Krasner himself recognized the failure of his argument to explain the nature of the international trading system during three periods: 1900–1913, 1919–39, and 1960–75. His attempt to reconcile these anomalous periods with his theory relies on domestic politics, in particular, on the assumption that institutional arrangements, once established, are difficult to change: "Once policies have been adopted, they are pursued until a new crisis demonstrates that they are no longer feasible. States become locked in by the impact of prior choices on their domestic political structures" (p. 341).

Krasner's reliance on variations in domestic institutions, even as a post hoc explanation for anomalies, constituted an admission, from someone identified with an international structuralist standpoint, that major patterns in the world political economy could not be explained without attention to comparative politics. Pursuit of this insight by students of comparative politics quickly led to some illuminating work. In a 1977 special issue of *International Organization* its editor, Peter J. Katzenstein, followed Gilpin and Krasner in portraying "the cycle of hegemonic ascendance and decline," but argued that differences in policy among advanced industrialized states could be explained only through comparative analysis, by "focusing on the governing coalitions which define policy objectives and the institutional organization which conditions policy instruments."[28] Krasner himself contributed a chapter on the United States and argued that the liberal vision of vastly increased interdependence was flawed. "Interests, alone, have not been enough to constitute an international order. It has always been necessary to have some political power that can provide collective goods and enforce rules and norms." Although the United States maintained sufficient potential power resources, the weakness of the American state—that is, the ability of private groups to block state initiatives—would prevent the United States government from effectively mobilizing those resources. The "ideal policy for the U.S." would be to move toward closure; but the weakness of the American state and Lockean liberalism means that "a policy of controlled closure is no more likely to be pursued than one of renewed liberalism. In the future, U.S. policy is likely to become less coherent and the world economy more unsta-

[28] Katzenstein, "Introduction," in Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978), 7, 18. This volume first appeared as an issue of *International Organization* 31 (Fall 1977).

ble."[29] Krasner's prognosis turned out to be incorrect; but his acceptance of the need for the analysis of domestic institutions as well as international power structures foreshadowed future work in the field.

In 1978 Peter Gourevitch turned the problem around, showing how international relations could affect domestic politics as well as vice versa He proclaimed that "students of comparative politics treat domestic structure too much as an independent variable, underplaying the extent to which it and the international system are part of an interactive system."[30] From this insight has flowed a stream of work about the impact of the international political economy on domestic politics that has reinforced Gourevitch's point. It would be difficult now to sustain the assumption, common two decades ago, that the politics of various countries could be compared without seriously examining their relative positions in the world political economy. To account for patterns in the world economy, we need to understand comparative politics; conversely, good domestic political analysis requires comprehension of the international context.[31]

V. Accounting for the Impact of "State Power": Some Speculations

Neither the lucidity of Krasner's argument nor its problematic quality fully explains its impact on the field of IPE. Quite a few lucid articles appear on important topics, but few receive the attention lavished on "State Power and the Structure of International Trade." Although I have no general explanation for the observed variation, I can offer some speculations, on the basis of personal experience, about why Krasner's article achieved such prominence.

[29] Ibid., esp. 86–87. Krasner made a similar argument in *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton: Princeton University Press, 1978).

[30] Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization* 32 (Autumn 1978), 900. See also idem, *Politics in Hard Times* (Ithaca, N.Y.: Cornell University Press, 1986). Gourevitch's arguments about the impact of the world political economy on domestic coalitions first appeared in his "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1873–96," *Journal of Interdisciplinary History* 8 (Autumn 1977).

[31] Outstanding works include David R. Cameron, "The Expansion of the Public Economy: A Comparative Analysis," *American Political Science Review* 72 (December 1978); Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985); Helen V. Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton: Princeton University Press, 1988); Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989); and Beth A. Simmons, *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years* (Princeton: Princeton University Press, 1994).

We first need to understand the personal and sociological context in which the article was written. In the early 1970s, as Krasner noted in his article, liberal thinking was on the rise. Classical realism, which had dominated international relations theory since World War II, had not equipped political scientists to understand how changes in the world economy were affecting the policies and interactions of states. The fact that Henry Kissinger, a leading figure in the realist camp during the 1950s and early 1960s and Nixon's national security adviser, did not even attend the Camp David meeting (August 13–15, 1971) on closing the gold window illustrates how out of touch classical realism was with the close linkages between wealth and power. Policy-oriented economists and business school professors moved first to fill the vacuum, notably Richard Cooper (then of Yale), in *The Economics of Interdependence* (1968), Charles P. Kindleberger of MIT, in *American Business Abroad* (1969), and Raymond Vernon of Harvard, with *Sovereignty at Bay* (1971).[32] In an article published in this journal in 1972, Cooper summarized the liberal agenda, arguing that "the model regime [of] autonomous and purposeful nation-states in harmonious and unrestricted economic intercourse, through the competitive market place, at fixed exchange rates, governed by occasional treaties and conventions to assure good conduct and to iron out modest problems of overlapping jurisdiction . . . is simply not viable in the long run." A "new conception of world economic order" was needed that would take into account issues of political economy, often dismissed as "low politics."[33]

These ideas resonated at the Center for International Affairs at Harvard, where Joseph S. Nye took the lead in organizing a project on transnational relations. The resulting volume, *Transnational Relations and World Politics*, argued that "high and low politics have become tightly intertwined."[34] After sitting quietly through many seminars on this subject, Samuel P. Huntington of Harvard drew attention to some of the political and strategic dimensions of transnational relations, although, like Krasner, he was skeptical of the liberal premises underlying the Keohane-Nye analysis: "Internationalism is a dead end. Only organizations that are disinterested in sovereignty can transcend it. For the immediate future a central focus of world politics will be on the coexis-

[32] Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: McGraw Hill for the Council on Foreign Relations, 1968); Kindleberger (fn. 2); Vernon, *Sovereignty at Bay* (New York: Basic Books, 1971).

[33] Richard N. Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics* 24 (January 1972).

[34] Keohane and Nye (fn. 10), 379.

tence of and interaction between transnational organizations and the nation-state."[35]

Into this scene stepped Stephen Krasner, first as a graduate student (Ph.D. 1972) writing a dissertation on the political economy of coffee under Huntington's direction, and then as an assistant professor (1971–75). Krasner had already written a biting critique, subtitled "Allison Wonderland," of Graham Allison's famous book on the Cuban Missile Crisis.[36] "State Power" was his attempt to challenge the liberal transnational research agenda—which played such a key role in discourse at the Center for International Affairs—by pointing out the shallowness of its political roots. It was also his "farewell address" to Harvard, written during the year in which he moved to UCLA.

But why did "State Power" become such a focus of debate? Perhaps the word "focus" provides a clue: in game-theoretic language, "State Power" served as a focal point in a coordination game. The three major constituencies of IPE at the time—liberal transnationalists, statist realists, and their audiences of confused or bemused students, faculty, and policymakers—all benefited from Krasner's definition of the issues. Writers, teachers, and students seized on his argument about hegemony and openness. The fact that Krasner explicitly gave priority to political factors helped all political scientists lay claim to this "turf." Realists, seeking to revise their doctrine to take account of political economy, benefited from having Krasner as a champion; liberals found that he had posed questions that they could seek to answer differently.[37] Students clarified their understanding of the issues by reading works that directly challenged one another. Once attention was focused on the problem as Krasner had posed it, authors had incentives to join in the debate and share in the academic notoriety. The drama of a good controversy, while potentially misleading, can make for exciting teaching. It also sells books and builds reputations.

The focal point effect was reinforced by an extraordinary collection of young international relations faculty and graduate students concentrated at Harvard in the early 1970s. Krasner sat around the seminar and lunch tables at the CFIA (then housed in a small building on Divinity Avenue) with Peter Gourevitch, Robert Jervis, Peter Katzenstein, James Kurth, Joseph Nye, Samuel Popkin, and Martin Shefter. The

[35] Huntington, "Transnational Organizations in World Politics," *World Politics* 25 (April 1973), 368.

[36] Krasner, "Are Bureaucracies Important?" *Foreign Policy*, no. 7 (1972), commenting on Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971). Allison was also at Harvard.

[37] As I sought to do in "The Theory of Hegemonic Stability" (fn. 13).

usual Harvard hierarchy was absent because the senior faculty did not dominate these discussions: argument was intense, continuing, and among friends.[38] Ideas were generated and refined, and when several participants soon migrated to UCLA, San Diego, Swarthmore, or Cornell, they took their ideas with them. The "stars were aligned" in a rare conjuncture of ideas, institutions, and individuals.

VI. Puzzles and Propositions in Contemporary Political Economy

Krasner identified a salient puzzle: changing patterns of openness and closure that did not lend themselves to explanation by neoclassical trade theory. His central argument was based on Albert Hirschman's insight that trade and investment patterns have power implications. Since power is a major goal of states, Krasner argued, the implications of openness for state power could be a key to unlocking the puzzle of variation in policies toward openness.

Students of the world political economy face a different puzzle now: how to account for the "rush to openness" on the part of a wide variety of states. This wave of liberalization includes states formerly part of the Soviet empire, but it is evident worldwide. After decades of devotion to state-led protectionism, Mexico after the mid-1980s joined the GATT, then entered into a free-trade arrangement with the United States and Canada. China, cited by Krasner as a classic example of a large, less developed, closed economy, now runs the world's largest trade surplus with the United States and is demanding entry into the World Trade Organization. Ironically, it seems, no sooner did political scientists gain some understanding of why, despite neoclassical economics, economic liberalization is not universal than it became more universal than ever!

What is the key, comparable to the Hirschman-Krasner insight about trade and power, that can unlock this puzzle? One candidate for the honors is that bête noire of political science, open-economy macroeconomics itself. Jeffry Frieden and Ronald Rogowski have recently argued that the key explanatory factor is a long-term decrease in the costs of international exchange and the concomitant increases in the rewards. These changes in costs and benefits increase the incentives for governments to liberalize trade and payments, even when the economy begins from a position of substantial closure. Openness is self-reinforcing within countries, since it increases the economic strength and political

[38] As Stephen Krasner recalls, Joseph Nye was a recently tenured member of the Harvard faculty at that time but did not stifle discussion.

influence of interests that favor it; it is contagious, because the openness of others creates more opportunities for gains from exchange.[39]

Whereas Krasner emphasized how considerations of power overcome purely economic incentives, Frieden and Rogowski argue that economics trumps politics, that the state is little more than a cash register that adds up the demands of interest groups in a democratic polity. Such a state presupposes accountability of the ruling elites to social groups. As the authors observe, "Whatever attunes policymakers to broad social interests or gives them longer time horizons will make them likelier to internalize the benefits of increased international trade."[40] Such a simple view of interest-group politics is unlikely to be attractive to most students of comparative politics. Like Krasner's argument, it is both lucid and problematic.[41] Those of us who believe in the importance of institutions may be inclined to sniff, "disconfirmed," and turn our attention elsewhere. However, the history of scholarship related to Krasner's "State Power" article suggests that such a move might be a mistake. Open-economy theory, based on macroeconomics, is simplistic, but it has a propositional clarity lacking in interpretations fraught with caveats. It would not be surprising to see it generate a countermovement from institutionalists, forcing them to devise more rigorous specifications of the conditions under which domestic institutions will block price signals, freeze coalitions and policies, or channel responses to change in ways that cannot be predicted from economic structure alone. Indeed, recent work by Geoffrey Garrett and Peter Lange takes a significant step in this direction.[42] The dialogue between these two sets of arguments may be productive, as was the dialogue between those, like Krasner, who focused on international structure and those, like Gourevitch and Katzenstein, who examined domestic politics.

A more political account of the rush to liberalization could begin by setting aside the notion of an undifferentiated state—a weak point in Krasner's argument—and focusing instead on the interests of key elites. In many of the states pursuing policies of economic liberalization, these elites are not institutionally accountable to society in any real sense. Indeed, control of state power, as in Russia, may lead to control of eco-

[39] Frieden and Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview," in Robert O. Keohane and Helen V. Milner, eds., *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996).

[40] Ibid., 35.

[41] See especially the chapters in Keohane and Milner (fn. 39) on Europe by Geoffrey Garrett, on Japan by Frances Rosenbluth, on the Soviet Union and Russia by Matthew Evangelista, and on several developing countries by Stephan Haggard and Sylvia Maxfield.

[42] Garrett and Lange, "Internationalization, Institutions, and Political Change," in Keohane and Milner (fn. 39).

nomic assets, rather than vice versa. Such societies, even if nominally democratic, are more aptly designated "kleptocracies"—polities ruled by thieves; their rulers are predatory in the sense used by Margaret Levi.[43] Yet since they control state organizations and can claim legitimacy as sovereign representatives, they can borrow money from international financial institutions, negotiate trade agreements, and impose rules for acquiring state assets that discriminate in favor of themselves and their business partners. Perhaps one key to global liberalization should be sought, not in governments' conversion to superior economic doctrine nor in pressure on them by interest groups to capture potential gains from exchange, but in the recognition by predatory rulers that they can manipulate the terms of international exchange. Positioned at the nexus of the domestic and global political economies, such rulers control profitable international connections and skim off profits from the world economy without having to tax their subjects directly.

The emerging dialogue between economistic theories of liberalization and more political approaches may or may not turn out to be as productive as the strands of thought and argument that emanated from hegemony theory, and especially from Stephen Krasner's formulation of it. As in the past, however, the study of world politics is likely in the future to progress less through incremental additions to our knowledge than through leaps of imagination and the critical, dialectical discourses that these flights of fancy generate. Stephen D. Krasner took such a leap in "State Power and the Structure of International Trade." We understand the relationship between international political structure and economic openness much better than we did before the appearance of this article and the stream of research that it helped to generate. Students of international political economy may remain dissatisfied with the answers we have generated, but without the lucidity of Krasner's formulation, we would surely be more confused than we are.

[43] Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988), esp. chap. 2, "The Theory of Predatory Rule."